LHATF subgroup on Health Premium Deficiency Reserves

After 6 years of work, the sub-group agreed to a modest proposal to change the Health Reserving Guidance Manual to give additional guidance on Health Premium Deficiency Reserves (PDR). The next step will be to bring this to the entire A&H Working Group of the LHATF.

Most of the recent debate has centered around how companies should group contracts for the purpose of holding premium deficiency reserves. The proposed changes to the Manual will start with an introductory paragraph that describes the history of the PDR and how it relates to GAAP. It then describes 4 specified lines of business that would constitute the maximum grouping:

Major Medical, including Med Supp, Dental, and Vision (sensitive to trend)
Long Term Care Insurance
Disability Income Insurance
Limited Benefit Policies such as HIP (not subject to cost trends)

Within these 4 lines, deficiency reserves should be calculated for material policy groupings, but sufficiencies are allowed to offset deficiencies within the line.

The new language will also limit the amount that future profits may offset current deficiencies. The new language suggests that the PDR testing that the company has performed should be documented and suggests the Actuarial Memorandum as a likely spot for the documentation.

The specific language is based on a draft from AHIP dated 4/17/2006 and forwarded by Bill Weller to Julia Phillips 4/19/2006.

There was a roll call vote on whether to send on to the A&H Working Group.
Yeas (6) CT, MN, NE, NM, TX, UT
Nays (1) NY
Abstention (1) CA

AR was chair to the working group and would have voted yes if needed. FL may not have been on the call, but based on previous calls, they would have voted no. States can ignore the Guidance Manual, and my impression is that FL and NY want their domestic companies to use much smaller groupings, even down to the form level.

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